

A FIRST-CLASS BANKING SECTOR

Vanuatu's financial services sector is mature and varied, as Business Advantage discovered.

Vanuatu offers a choice of first-class banking options. Australian banks ANZ and Westpac have a strong local presence and the state-owned National Bank of Vanuatu is becoming more active in the commercial area while working vigorously to provide services to Vanuatu's rural majority (see box).

In addition, a new commercial bank has just opened up in Port Vila. Bred (Vanuatu)

is a subsidiary of France's Bred Banque Populaire (see box). Another new entrant to the finance market is Papua New Guinea's Credit Corporation, which will offer services such as fleet leasing finance.

Of course, Vanuatu already has an established international finance centre, supported by well-known international service providers like BDO and PKF.

The finance industry has struggled somewhat since OECD countries raised

concerns about global tax havens in the aftermath of September 11. The Vanuatu Government has since taken measures to comply with new international codes but this has undermined the competitiveness of the sector at large.

One response of the International Finance Centre has been to diversify the range of services on offer, entering new markets such as captive insurance (see box).

PIONEERING RURAL BANKING

The National Bank of Vanuatu (NBV) is finding new ways to reach the large number of ni-Vanuatu who don't have access to its 21 branches.

It has successfully undertaken a project in partnership with the Asian Development Bank (ADB) to create a sustainable micro-lending program.

The project involved NBV lending officers travelling to remote villages by motorbike (sometimes up to three hours away) where they met with potential borrowers, detailed their applications, and identified their assets. The role of village chiefs in lending is pivotal. A chief's certification of an applicant's integrity and community standing is needed before a loan is approved.

Approved loans are used in many areas of village life. Some 43% of the loans disbursed in 2005 went into small trade, mostly small village shops, and about 30% went into agriculture, livestock and fisheries. As of September 2007, NBV had approved about 1,600 loans, amounting to US\$3.5 million. The next phase of the project, currently

being developed, is to use mobile phone and smart card technologies and an agency-based arrangement to expand this kind of service into the more remote areas of the country. This is a groundbreaking initiative in the Pacific region but is already well-established in Africa where mobile phone coverage tends to be much better due to higher population densities.

'We are going to reach people previously considered unbankable,' says Bob Hughes, Managing Director of NBV. 'A school teacher who gets paid fortnightly has to get to a bank two hours away to collect their money. They may only be able to do this during business hours via a public transport service that costs a fortune in relation to the actual salary they are drawing. So the teacher loses productivity in the classroom and wastes money on the trip. The new system would make that journey unnecessary.'

A NEW COMMERCIAL BANK

France's fifth largest bank opens its doors in Port Vila



THE NEW BRED BUILDING UNDER CONSTRUCTION.

Competition has become fierce in the Vanuatu banking sector with the arrival of a new player, Bred (Vanuatu) Limited, a subsidiary of Bred Banque Populaire, France's fifth-largest bank and one of the top-50 banks in the world. The Bred group is by no means a newcomer to the Pacific, with an existing presence in New Caledonia (BCI) and French Polynesia (Socredo).

With backing such as this, it is no surprise that Bred has hit the ground running in Vanuatu. Its brand-new Port Vila head office, which was still under construction when Business Advantage visited in October 2007 (see picture), will set a new standard for Vanuatu in terms of commercial real estate. Some of the office space has already been sublet, with regional IT services provider Datec and New Caledonia's AirCalin as new tenants.

There is some feeling in Port Vila that Vanuatu has missed having a francophone bank ever since Banque d'Hawaii was taken over by ANZ in 2001. At the same time, Bred does not intend to limit itself to the French market, and will offer services to both individual and corporate clients.

The Vanuatu Government hopes that the advent of Bred, coupled with the country's healthy investment climate, will encourage new investors into the country, especially from nearby French-speaking New Caledonia. With this in mind, a high-level delegation from Vanuatu attended a business forum in Noumea in October 2007.

A NEW OFFERING FROM THE INTERNATIONAL FINANCE CENTRE

Kevin J Lindsay considers Vanuatu's advantages as a base for captive insurance.

Vanuatu has enjoyed a long history as an international financial centre. A common law legal framework, zero corporate tax rate and minimal compliance costs provide a stable platform from which to launch a captive insurance program.



Source: Cooper & Lybrand/Collins & Lyckor Associates

What is captive insurance?

A captive insurance company is effectively an 'in-house' insurance provider. It is an entity, through which one self-funds risk exposure.

The general mechanics of captive insurance are relatively straightforward: A company, having identified a risk, provides for that risk by paying regular cash instalments to an entity over which it has complete control (as opposed to a traditional insurance company). A captive may insure all of a risk or it may reinsure, some or all, through reinsurance. The basic attraction of captive insurance is self-evident. One gets all the benefits of insurance coverage (e.g., tailored risk protection, tax deductibility of premiums) while retaining the benefit of accumulated premiums. If the anticipated risk does not materialise, accumulated premium becomes retained profit. If the risk does materialise, the entity's risk is covered. The commercial benefits and advantages of captive insurance include:

- Returning underwriting profit and investment income to the owner. (A traditional insurance carrier would otherwise retain these earnings);
- Policies can be better tailored to the needs of the insured party, as premiums can be based on a company's individual risk profile as opposed to that of the industry;
- Direct access to reinsurance;
- Administration costs are transparent and controlled;
- The owners are able to participate actively in decisions influencing its underwriting, operations and investments; and
- There is better opportunity for risk control driven by an incentive to understand, reduce or eliminate the risk.

Captive insurance in Vanuatu

What constitutes an ideal vehicle for accessing the benefits of captive insurance is a critical issue. For some the incorporation of a separate company for that purpose can be unduly costly and time consuming, while rent-a-captive facilities can give the perception of a relinquishment of control. The recent enactment of protected cell legislation in Vanuatu has provided one solution to this dilemma by affording the traditional advantages of a separate legal entity without the associated compliance costs. When added to the range of captive options already on offer, the protected cell legislation has enabled Vanuatu to offer a range of captive insurance options for the international client, including:

- incorporated insurance companies;
- protected cell companies; and
- rent-a-captive facilities.

The ideal entity will inevitably vary from company to company according to a number of individual criteria.

Kevin J. Lindsay is Chairman of the Vanuatu Captive Insurance Association and Director of Risk Management International Consulting Limited.

More information: visit www.insurance.vu

